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SYSTEM OF SHIPPING THEORY (2) THE PURPOSES OF SHIPPING POLICY

By *Sempei Sawa*

I Preface

When we speak of shipping policy, we mean the policy taken by a nation with regard to its merchant marine. It follows that the subject of shipping policy is the state or state government and the object of shipping policy is the shipping of the country concerned. Thus, it is not general shipping policy but specific shipping policies which become important for our study. The relationship between the subject of shipping policy and its object differ with the times as well as the nations.

Here, however, instead of an attempt to solve actual shipping problems, I have tried to formulate certain theoretical principles to be applied under all conditions. The practical viewpoint and the theoretical viewpoint seem to be directly opposed to each other, but, in actual application, the best results cannot be expected without through theoretical consideration. The greater our enthusiasm for actual application, the greater must be our enthusiasm for theoretical consideration. Fundamentally, there is no contradiction between the applications and theories.

A shipping policy is but a policy. A policy is a means to attain a definite end or purpose. A policy is not an end in itself but simply a means (method) to an end. Hence, the object of the theoretical study

of shipping policy is the means and not the end itself. It may be said also that end or purpose in view is of the greatest importance in the making of policy. But even if this is true, the purpose in relation to the means, the means in relation to the purpose and the relation between the purpose and the means, from the practical as well as theoretical standpoint, must be strictly investigated. Government authorities who actually carry out policies have no time for theoretical study, but, for us who take the objective stand, a strict study or investigation is very vital.

Although the purpose of policy is of the most importance in practice, it is in the theoretical considerations that its basis must be found. For instance, when a nation's shipping policy is towards a shipping protectionism, what purpose is it directed for? Is it for the employment of the people; for the expansion of commerce; for the increase of freight revenue or for the national defense (military purposes)? According to the nation and the times, it is never the same. Needless to say, whichever purpose of policy are taken up, the methods of policy can differ. Although the purpose may be the same, the means may not always be the same, according to the nation and the historical period. For our study, therefore, the relationship between the purpose and means must be carefully investigated in reference with both the times and the countries concerned. It may be said that the character of the shipping policy of a nation arises from the character of the national economy of a country, and so, the three types of national shipping mentioned previously become greatly important.

Shipping policy is a policy made by a nation for its own merchant marine. In this sense, it has its origin with the beginning of the state. Shipping policy has developed conspicuously since the beginning of the modern times. This is clear when seen in the light of the rise of mercantilistic nations and the competitive relationships between foreign nations. In fact, shipping itself has made an amazing progress from coastal shipping to foreign or international shipping in the modern times as a turning point. Shipping policies towards coastal shipping, foreign shipping and international shipping may appear the same, but, in character and purpose, they must be different systems. Therefore, it is important to consider the forms of shipping policy according to the forms of shipping economy.

As stated above, if shipping policy is considered as having developed since the modern times, it is because shipping policy in the traditional sense was found in the policy taken towards foreign countries. In this sense, shipping policy has become traditional in changing from Type I to Type II.

In the modern times, what has apparently been domestic policy has quite often been in fact a foreign policy. In the modern times, domestic policy which has no effect towards foreign countries is somewhat meaningless. The case of the Lenten observances "meatless days" in England, is a case in point. It was for the purpose of increasing the consumption of fishes and of competing against the Holland trade. It was not a policy against the Protestant reformation. Also, the issue of burial laws which specified the use of woollen cloth instead of linen for shrouds was to increase the consumption of woollen cloth on the domestic market as a protective measure for manufacturers and at the same time it was the struggle of the English merchant marine for independence in its early modern era against the power of the Hanseatic League.¹⁾

Then, can it be said that, only the second type has the characteristics of shipping policy? If shipping policy remains merely as a policy as in the middle ages, it would have little significance in modern times. Type I shipping policy of the present days differs to considerable degree from the same form in the medieval days in the points that, to a smaller or larger extent, foreign trade has become a vital issue in the today's national economy. A mere shipping policy can not remain as a policy in the present times when each national economy cannot become isolated from the world economy.

The fact that Type III shipping policy has a stronger overseas character, is well known, and it can be said to have a stronger modern character than Type II. If the development from Type I to Type II took place from the middle ages to the modern age, the development from Type II to Type III of shipping policy may be said to have taken place from the modern times to the present era.

This can be seen clearly in the case of England. The advancement from Type II to Type III took place in the middle of the 19th century with the abolishment of the Navigation Acts. British shipping may be said to rest largely on its national economy and the world economy, and her shipping policy depends largely on the principle of the freedom of the seas.

But, at the same time, we must consider the fact that the modern development of shipping policy is seen in the change in shipping enterprises from a private carrier to a common carrier. This point has already

¹⁾ Cunningham, W.: *The Growth of English Industry and Commerce during the Early and Middle Ages*, Cambridge, 1896. pp. 479-80; Cunningham, W.: *The Growth of English Industry and Commerce in Modern Times*, part I., Cambridge, 1903. pp. 68ff. 393.

been mentioned in my previous study. Although shipping policy is determined by the character of shipping economy, it is also affected by the form of shipping enterprise and operation.

As stated above, the object (Gegenstand) of shipping policy is the national merchant marine. It is quite clear. But, according to Friedrich P. Siegert,¹⁾ the purposes of shipping subsidies, as a kind of shipping policy, are as follows:

(1) The increasing of the national shipping capacity for the national economy.

(2) The increasing of the national shipping capacity for the world economy.

(3) The increasing of the world shipping capacity for the national economy.

Among these, (1) may be called the shipping policy for Type I and Type II. (2) would be for Type III. (3) would be for the countries without shipping bottoms of their own, which, by means of international shipping agreements and treaties, try to increase their foreign trade as a whole. But, although this purpose may be included in the purposes of a general overseas economic policy, it may be difficult to be included in the purposes of shipping policy.

II. The Purposes of Shipping Policy

Shipping policy has, for its purpose, the maintenance and increase of national shipping. According to H. Heckhoff,²⁾ there are five reasons for maintaining and increasing its national shipping.

- (1) Employment of people
- (2) Promotion of trade
- (3) Freight revenue
- (4) National defense
- (5) Psychological effects

Among these, (1), (2), (3) will naturally be separated from (4) and (5) from economic consideration. When considering shipping policy as economic policy, our study must be limited to the first three points only. (4) and (5) must be left out in this study.

As already mentioned, actual shipping policies are not only limited to economic relationship. Perhaps there is no other policy more vital and important than shipping policy in connection with the problems of

¹⁾ Siegert, F.P.: Die Subventionen der Weltschifffahrt und ihre sozialökonomischen Wirkungen, Berlin, 1930. S. 9.

²⁾ Heckhoff H.: Die Schifffahrt in der Aussenwirtschaftspolitik, Köln, 1938. SS. 19-20.

national defense.

“Even more important, perhaps, than its role in the development of commerce is the vital relationship that exists between the merchant marine and national defense. Many authorities regard the latter consideration as more important of the two, a view which is supported by the fact that national defense is placed ahead of trade as an objective of the Merchant Marine Acts of 1920, 1928, and 1936. It is obvious that national defense is an important, if not the primary, justification for the maintenance of American vessels in foreign trade.”¹⁾

This can be applied to various nations (except Japan under her new Constitution).

Also there are psychological elements which cannot be ignored.

“Neben allen diesen Gesichtspunkten sind aber auch die ideellen Motive nicht zu vergessen, die auf eine grosse Flotte drängen. Dieses psychologische Moment des Stolzes auf die eigene Marine, auf die Nationalflagge am Heck der Schiffe ist in keiner Weise zu unterschätzen und hat sehr oft zu einem Aufschwung der Schifffahrt beigetragen, wie er sonst nicht erfolgt wäre. In Ländern, in denen dieser Antrieb aus dem Volke heraus fehlt, hält es unendlich viel schwerer, eine Flotte zu schaffen und zu unterhalten. Im Zusammenhang damit steht auch die ideelle Wirkung, die im Ausland hervorgerufen wird, die Werbung, die durch die Schifffahrt erfolgt.”²⁾

“Jedes Handelsschiff führt den Stand der Industrie seines Heimatlandes, seine Besatzung in Haltung und Benehmen den kulturellen und sittlichen Stand des Volkes dem Auslande greifbar vor Augen. Der Nordatlantik, einst die Haupteinnahmequelle der grossen Schifffahrtsgesellschaften, ist die Paradestrasse der Seeschifffahrt geworden, wo auch für Deutschland der Wettbewerb der Schifffahrtsländer vom nationalpolitischen Standpunkt bestimmt wird und Rentabilitäts-erwägungen in den Hintergrund treten müssen.”³⁾

Such is the situation, but, since our study is chiefly concerned with shipping policy as an economic policy we must leave out these phases of the problem. Also for similar reasons, we must leave out the problems concerning the welfare of seamen, safety on the seas etc. Of course, it does not mean that economic policy has no social

¹⁾ U.S. Maritime Commission: Economic Survey of the American Merchant Marine, Washington, 1937. p. 9.

²⁾ Heckhoff: SS. 20-21.

³⁾ Institut für Konjunkturforschung: Der Wettbewerb in der Seeschifffahrt, Berlin, 1940. S. 187.

significance, but because the main purpose of the present study confines itself to shipping theory from a purely economic standpoint.

(1) The Employment of People

In the foregoing, we have seen the various aims of shipping policy. The importance of a merchant marine as a means of livelihood for the people for some countries may be understood, but it is not of the same importance to all countries. Generally speaking, shipping is usually for transport and the number of people employed in shipping is of secondary importance. The importance of any industrial field cannot always be judged by the number of people engaged in the work. It may even be possible that the smaller is the number of people employed the greater may be the economic contribution to the national economy. Men are not slaves of work. To work is not the sole aim of men. In the case of shipping, it may be said that transport is a matter of circulation rather than production. The actual unit of labor required in shipping in relation to the values of products transported is usually very small. In this sense, the opinion of A. Salter concerning workers in shipping and shipbuilding industries in the world in comparison with the agricultural population of France must be considered with a great care.

“Eine grosse Bedeutung bildet auch der Besitz einer Flotte für die Industrie eines Landes, der durch Bauaufträge und Reparaturen grosse Summen zufließen, waren doch in Deutschland, um nur eine Zahl zu nennen, in dem für die Schifffahrt doch ausserordentlich ungünstigen Jahre 1933 allein im Schiffbau 68,000 Personen beschäftigt, ungeachtet all der vielen Tausende, denen mittelbar durch Lieferungen für die Schiffsbauindustrie Arbeit gegeben wurde. Weitere grosse Menschenmengen werden in der Schifffahrt selbst beschäftigt, tausende andere sind durch Aufträge für die dauernde Unterhaltung und Ausrüstung der Schiffe in Anspruch genommen.”¹⁾

This is the opinion of Heckhoff. There are many other references which give similar opinions, but, aside from nations which have no other proper means of livelihood, it can be said that from the point of view of shipping policy, employment cannot be called a fundamental basis.

At this point we wish to think about the three main types of shipping economy as a part of a national economy. In the case of England, her shipping belongs to Type III. From the standpoint of British national economy, it may be called “shipping for the sake of

¹⁾ Heckhoff: SS. 19-20.

shipping." The number of British ships tonnage engaged in trade routes between foreign countries is quite large. Therefore, freight revenue becomes a most important factor in British shipping policy. The freight revenues brought in from international trade, serves as invisible trade in England. But, formerly, greater emphasis was put on trade expansion rather than on freight revenue. Generally speaking, England of the modern age has felt freight revenue as one of the most important items in the international balance. In the earlier times of England, shipping had been considered as a means of national livelihood.

"And where the Navy or multitude of ships of this Realm in times past hath been and yet is very profitable, requisite, necessary and commodious, as well for the intercourse and concourse of merchants transporting and conveying their wares and merchandise, as is above said, and a great defense and surety of this Realm in time of war, as well for offense as defense, and also the maintenance of many masters, mariners, and seamen, making them expert and cunning in the art and science of shipmen and sailing, and they, their wives and children have had their living of and by the same, and also hath been the chief maintenance and support of cities, towns, villages, havens and creeks near adjoining unto the sea coast, and the King's subjects, bakers, brewers, butchers, smiths, ropemakers, shipwrights, tailors, shoemakers and other victualers and handicraftman inhabiting and dwelling near unto the said coasts, have also had by the same a great part of their living:"¹⁾

The Navigation Acts of Henry VIII were very well systematised. It was for the purpose of increasing naval strength. But during those days there was no difference between battleship and the merchant marine. In time of war, ships were mobilised for transport. The provisions of this Act were the same for naval ships as well as for the merchant marine. This Act, however, tried to encourage the growth of national shipping as a means of the people's livelihood. English shipping had not yet been baptised by the spirit of mercantilism. It still kept much of her medieval character. Therefore, greater importance was placed on people's employment rather than on freight revenue or trade expansion which receives greater emphasis in the shipping of the recent days. This is very much like the situation in New England where the descendants of the Pilgrims wished to build theaters in Boston and sent to the state authorities a petition in which the reasons given for the building of a theater were the maintenance of employment

¹⁾ Hunter, H. C.: How England got its Merchant Marine, 1066-1776. New York, 1935. pp. 50 ff.

for various builders, carpenters, stonemasons, plasterer, sculptors, painters, upholsterers, furniture makers and repairmen.

Generally speaking, before the modern age, there was greater interest in internal relationships in matters of national economy. Modern states began with the rise of absolute monarchies but the monarchical system was not merely the natural result of the breakdown of the feudalistic system. The growth of national consciousness as the result of international contacts and friction led to the development of the modern state. In this sense, modern national economic policy may be considered both internal as well as external policy in effect. A policy which has no significance with regard to external (foreign) relations can have very little effect with regard to internal (domestic) relations. As long as the seas are considered not only the coastal waters but open ocean, the shipping policy has had the traditional character since the rise of modern states. In this case, shipping policy, as a foreign policy, is historically a mercantilistic policy. Then, the domestic policy of considering shipping as a means for giving the people's employment cannot be called a traditional shipping policy.

However, when there are no other suitable opportunities for the employment of the people in other industrial fields, the shipping takes on a different meaning. We may take Norway as an example. Since there is no other means of livelihood besides the shipping, shipping becomes an important source of national employment. Though those who have direct connection with shipping itself form only a part of the Norwegian population, the international freight revenue which the Norwegian merchant marines receive abroad, is indirectly enhancing the employment of the greater part of domestic population. It is only in this way that we are able to understand the present character of Norway's shipping.¹⁾

In other words, the shipping policy which has as its direct aim the employment of the people is an internal or domestic policy. Employment is the principal purpose in the shipping of medieval states (the first type of shipping). It was limited to internal interests.

(2) The Promotion of Foreign Trade

The shipping policy belongs traditionally to the nations of modern days. At the same time, the maritime city states in Italy (for instance Venice), though they are the states of the middle ages, had shipping

¹⁾ Institut für Konjunkturforschung: S. 141.

²⁾ Beer A: Allgemeine Geschichte des Welthandels, Abteilung I., Wien, 1860. S. 190.

systems similar to that of modern times.²⁾ Further back to the old Greek Imperial shipping system, it is not difficult to find modern characteristics.³⁾ The problem is how far shipping policy is systematised as a part of the national economy.

As modern economic policy has its origin in mercantilism, modern shipping policy without doubt has made conspicuous progress with the advance of mercantilism. When we say that shipping policy in the traditional sense has developed together with mercantilism, we mean that the promotion of foreign trade as a purpose of shipping policy is shown to be of great importance. "It is not always necessary for foreign trade to be carried on in ships of our own. Goods can be transported in foreign ships." This has been the belief based on the principle of laissez-faire. In middle ages, when international commercial relationships had greater political implications, it was necessary for a nation to use its own ships in carrying its foreign trades.

The strongly privileged character of foreign trade in the early days of the modern era made it necessary for nations to use their own ships. In the later part of the middle ages, in the maritime city states of the Hanseatic league, ship building contracts were banned and overseas trade was carried on entirely by the nation's own ships. As foreign trade advanced from plundering trades to modern trades based on manufacturing industry, the import of raw materials and the export of manufactured goods began to show the necessity for a national merchant marine. "That trade follows the flag" was felt to be the basic principle of the policy of modern nations where there exists the closest relationship between industrial trade and shipping industries. I have already mentioned the establishment of woolen manufacturing in England through the Navigation Acts of Edward III. From this point of view, the medieval shipping policy (Type I) is that for the sake of peoples' employment, and, the modern policy (Type II) is the shipping policy for the sake of foreign trade promotion.

The Navigation Acts which followed Oliver Cromwell were the Acts of the shipping policy for the sake of foreign trade promotion as well as for the sake of basic industrial productions. If foreign trades become weaker, the basic industrial fields become weaker, and the economic productivity of the countries concerned comes to a standstill. These Navigation Acts were issued against Holland. Holland's commercial seapower had grown as the middleman in the world trades. Although the two, England and Holland, tried to build up its own

³⁾ Hasebroek, J.: Staat und Handel im alten Griechenland, Tübingen, 1928. SS. 151-52.

merchant marine for the establishment of a large maritime nation, they differed fundamentally in building up their national shipping systems. With the development of international trade and with the growth of the world economy in the later 19th century, the Navigation Acts were abolished and the foreign trades have developed from foreign commerce (between home country and foreign countries) to international commerce (between foreign countries). The character of British shipping policy also has developed from the Type II to the Type III.

But it can be said, that "foreign trade follows the flag" still nowadays continues to be true.¹⁾ In fact, after the First World War, the trade policy under the name of new-mercantilism in the field of shipping policy strongly demanded the transport of each nation's trade goods by its own ships (Type II of shipping policy). For example, even in the case of the United States which belongs to Type I, the Preamble of the Merchant Marine Act of 1920 has stated:

"That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States: and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine."

The declaration of policy embodied in the act of 1920 was reaffirmed in 1928 and again in 1936.

While theoretically belonging to the first Type, in reality it could not help but take the second type of shipping policy and there seems to be the historical destiny of American shipping and shipping policy. According to P. M. Zeis,²⁾ the above Merchant Marine Act's declaration of mercantilistic policy came from the Senate Committee on Commerce which had made no investigation and had been influenced, no doubt, by the shipping interests. We must go back as far as the period before the Civil War to find the reasons for this. The Navigation Acts system once associated with the strong policy of protectionism has still been kept long after they were no longer needed at all. Even a new nation like the United States is yet a conservative nation. This has been mentioned before and it will be noted again. But it is the most important point to grasp the essential nature of American shipping policy.

¹⁾ Heckhoff: S. 19.

²⁾ Zeis, P. M.: American Shipping Policy, Princeton 1938, pp. 117. 217.

We have thus far observed how national shipping policy has been formed historically for the purpose of promoting international trade, but a further yet deeper analysis is felt necessary.

It seems that a national merchant marine becomes necessary under the following three conditions:

(i) When there are not merchant ships enough to carry the country's foreign trades.

(ii) When foreign ships can be used freely, but carrying of foreign trades by foreign ships is less profitable because of discrimination.

(iii) When foreign ships can be used freely and without discrimination, but when a national merchant marine makes national commerce much more profitable and advantageous.

In the following, the above three points will be analysed in the order given.

(i) First, when there is a general lack of merchant ships to carry foreign trades. As has been stated above, when shipping was in the private carrier system, the merchant fleets which carried the foreign trade of a country was as a rule owned by its nation. Therefore, every country placed special emphasis on the increase and maintenance of her own fleet. But with the growth of international trades, the gradual development from private carrier form to common carrier form of shipping have made it possible to make use of foreign ships freely and made it less urgent to maintain a national merchant marine.

(ii) Next, when foreign merchant fleets, even if available, are discriminantory against the trades of our country. "It is claimed that wherever we are dependent upon foreign ships to carry our exports and imports, our commerce is discriminated against; that our products do not receive prompt and efficient handling; that excessive freights are charged on our exports and imports; and that these alien carriers systematically compile the names of our customers and other trade secrets and pass this information along to the exporters in their own country."¹⁾

This is but a short quotation from the complaints of American traders quoted by Prof. Horn. Similar complaints are also seen in a books by W.W Bates. But, in the days of common carrier shipping, there can be little basis for such objections.

According to what has been stated above by Horn, when shipping of goods exported from country *A* to country *B* is carried on by the merchant fleet of country *C* (third country, that is a country of common

¹⁾ Horn, P.H.: *International Trade; Principles and Practices*, New York, 1935. p. 270,

carrier), the complaints above is that claimed by the traders of *A* against the merchant fleet of *C*. In such a case, the reader can readily see that it is suicidal for *C* to practice discrimination against *A* and it is a baseless and foolish idea to send the names of customers secretly to *C*, when a common carrier shipping is nowadays of common use.

In fact when such complaints arose from American export traders, R. Meeker, with his sharp and critical analysis, wrote the following :

"Now it is a fact of no small economic importance, that a foreign ship-owner is always willing to carry American goods for a consideration, no matter how heartily he may hate Americans. Sea transportation is a business, and not a religious or sentimental activity. Obviously this whole argument for national ships becomes a reduction ad absurdum, for how shall maritime nations promote their commerce without at the same time promoting the commerce of those countries with which they trade! It may be asserted that the nation without a merchant marine is excluded from intercourse with undeveloped and colonial countries, but the undertakers of all nations are watching keenly for every opportunity to do profitable business. Our commerce with the Levant has increased so greatly in recent years that the Hamburg-American Line has found it advantageous to found a regular freight line between New York City and the ports of the eastern Mediterranean. Our commerce with the English colonies in South Africa has increased more rapidly than that of either England or Germany, though the two latter countries have their regular postal lines in South African ports. American agricultural implements have practically displaced German farm machinery in the Transvaal, because they are better, lighter and cheaper. No case has yet come on record of a German shipmaster refusing to carry American goods on the grounds that it might injure German trade. The complaints that American shippers cannot find transportation for their goods are heard in the halls of Congress, but not in the Boards of Trade."¹⁾

The truth of Meeker's opinion and the absurdity of the complaints of the American shippers was shown by the thorough investigation carried out by the U. S. Congress House Committee of the Merchant Marine and Fisheries. "The investigation showed also that, in cases where there were no American lines and where shipping services between United States and South American ports were dominated by foreign companies, that these companies insisted upon parity rates with the carriers operating from European ports in order that companies operating

¹⁾ Meeker, R.: History of Shipping Subsidies, New York, 1905. pp. 211-12.

from the United States might receive a fair share of the business. The investigating committee unearthed no discrimination against American exporters."¹⁾

This report, together with "the Report of the Royal Commission on Shipping Rings, 1908." published in England, are two of the most dependable official papers concerning shipping conferences or rings. Both Prof. Horn and Zeis give their full support towards the findings of the Committee of the Merchant Marine and Fisheries. To quote again from Prof. P. V. Horn, "These charges have not been substantiated by incontestable evidence and are still largely in the category of rumors. So far as freight rates are concerned, because of the highly competitive nature of international shipping, there is every reason to believe that American shippers receive fair treatment, equal in every way to that of their foreign competitors."²⁾

Also mention must be made of the opinion held by Zeis; "Should the shipping companies of any one nation attempt to discriminate against American exporters in favor of their own nationals, the American products have the opportunity to ship their products in the surplus carriers of other nations—particularly in the boats of the Scandinavian countries."³⁾

Although Zeis in his opinion above does not try, as I have tried, to trace the process of development from private carrier to common carrier, he says that if Scandinavian bottoms are used there is no difficulty at all. The Scandinavian shipping fleets may be fully considered representative of common carrier system.

In spite of these favorable arguments of scholars, the activities of pressure groups continuously talk about "discrimination" as a serious problem in the American shipping. Even president Franklin Roosevelt, in his well-known Maritime Policy Report of March 4, 1935, stated at the discriminations practiced by foreign shippers and members of shipping conferences, "The maintenance of fair competition alone calls for American-flag ships of sufficient tonnage to carry a reasonable portion of our foreign commerce."

But in the case of the U. S., and as long as there are foreign trade shipping fleets available in the open market, this problem is not as important as it is seen in the president's report. In the "Economic Survey of The American Merchant Marine" published later by the U. S. Maritime Commission, there seems to be little basis for such fears.

¹⁾ Zeis: p. 221.

²⁾ Horn: p. 271.

³⁾ Zeis: pp. 221-22.

"An argument often advanced to support the maintenance of an American merchant marine is the possibility of discrimination against our goods on the part of foreign lines. Despite recurring charges, there is little in the record to substantiate this attitude. Shipping is so highly competitive, and there are so many services available under different flags, that the individual operator can hardly afford to practice outright discrimination against a customer. It is not believed that discrimination is practiced to any appreciable extent today."¹⁾

(iii) Thirdly, when foreign ships can be used freely without any discrimination but when it is better for the promotion of trade to use own national ships.

To state the conclusion it is only through the freight relationships to make such conditions possible. When freight rates become lower, the prices of goods manufactured with imported raw materials and of goods manufactured to be exported become lowered, and naturally an advantageous position will be held in overseas market competition. But can it be said that when there are foreign ships which can be used freely a nation can so easily bring down freight rates by using its own national ships? When foreign merchant fleets are available, there will be rather strong competition among different flags which offer lowered freight rates. Thus this may be possible in the case of Japan where the seamen's wages are cheaper because of the lower living standard, or in the case of Greece where the capital outlay is small because of old ships. But generally speaking, to say that the use of a nation's own merchant marine will extend a nation's foreign commerce does not always prove true. "A nation having a large merchant fleet has a favourable position in the field of international trade" was made by a well-known author Prof. E. Johnson. If his own country's merchant marine can not carry a commerce with lower freight rates, such a statement cannot be made. At any rate, in the present day when the common carrier system is well established in the world shipping market, it seems to be a rather weak basis for argument.

Such a belief of Prof. Johnson can often be held because of mistaken associations and ways of thought. That shipping subsidies help to lower freight rates and thereby help to promote international trade is generally accepted, but we should not forget that subsidies are a form of freight when considered in relation to the national economy.

This means that, in the overseas shipping market of the common

¹⁾ U.S. Maritime Commission: Economic Survey of the American Merchant Marine, Washington, 1937. p. 8.

carrier, maintenance of a national merchant marine which leads to promote national commerce, can be justified only when the freight rates of national shipping lines are especially low. Therefore, just to think that "the maintenance of a national merchant fleet leads to promotion of foreign commerce" is often quite meaningless as a shipping policy. The argument "the maintenance of a national merchant fleet means the promotion of foreign commerce" is believed by 100 out of 100 persons in ship-owner circles and shipping lines. And it is made use of this argument to obtain government subsidies. But in reality, this is not always true. Here I would like to say that my theory of "three types of shipping" will give us valuable suggestions. In overseas trade, some countries will gain by maintain their own merchant marine while others do not. In the case of the U.S. (Type I), it may be taken as a good example of the latter:

"The final phase of the commercial argument—that American carriers have a special interest in promoting the sale of American products—has been demonstrated to be without validity. The ship companies fought every effort to regulate their industry in the interests of the shipping public; they fought the ship-purchase bill desired by exporting groups; they exerted every effort to keep the Shipping Board fleet idle in order to hold up rates. In recent years there has been a constant conflict between the carriers which wished to destroy independent competition and the shipping public which wished to preserve it in the interest of low shipping rates. There is a fundamental conflict between the shipping interests which try to give a minimum of service for a maximum of return and the shipping public which desires a maximum of service at a minimum of cost." "Consequently far from promoting trade they usually advocate legislation which would have the effect of injuring trade."¹⁾

It is difficult to understand how shipping companies can work against the interests of their customers (exporters). When we speak of shipping we think of it as overseas shipping in foreign commerce. But in America this is not always so. Shipping in America has, to a great extent in the past, been limited to great lakes and coastal routes. To ship their goods in foreign vessels at lower freight rates instead of at the high rates of their own national lines is common sense for American shippers. All the American ship-owners oppose the entry of foreign ships along coastal routes while there are many traders who wish to make use of the foreign fleet with lower freight rates for their import and export.

¹⁾ Zeis: p. 222.

(3) The Freight Revenue

As the purpose of shipping policy changes from "the people's employment" to "the promotion of trade" and next to "freight revenue", shipping policy comes closer to its peculiar purpose. When the people's employment is the main purpose, shipping policy takes an internal direction while overseas activity (external direction) is emphasised when promotion of trade is the main purpose. The former belongs to the first type of shipping policy while the latter belongs to the second type of shipping policy. A shipping policy which has for its main purpose "freight revenues" is similar to the second type of shipping policy in which it emphasises overseas trade, but at the same time it differs from the second type in being independent of commercial policy. Presumably because freight revenue in individual economy as well as in a national economy becomes the special object of the common carrier system. In this sense, shipping which aims at the gaining of freight revenue for its main purpose, must be classified as belonging to the third type of shipping policy.

As has already been stated, the commonest method of gaining freight revenue as a part of the national income is through overseas transport between foreign countries. From this it can be seen that the shipping countries which make freight revenue the main purpose of shipping policy are those countries whose merchant marine carries on trades between different countries. In the case of England the following can be said:

"Die liberalistische Auffassung, wie sie etwa heute noch zu einem grossen Teil das wirtschaftliche Denken in England beherrscht, misst die Bedeutung der Seeschifffahrt in erster Linie nach der Rentabilität. Je höher der Anteil ist, den die Seeschifffahrt zum Volkseinkommen (oder Sozialprodukt) liefert, desto grösser ist ihre volkswirtschaftliche Bedeutung".¹⁾

In fact, the freight revenue from its international commerce is thought as a barometer of the British shipping. For instance, to show the degree of the activities of British shipping in the Far Eastern shipping routes, the freight income of British merchant fleet is used.

In the case of Germany, the main purpose was to achieve complete autarchy in Nazi economic policy. But, in order to gain foreign exchange to purchase raw materials from abroad, it was necessary to depend on shipping freight revenue.²⁾ At this point there is a difference between German shipping and Japanese shipping (Type II).

^{1) 2)} Institut für Konjunkturforschung: S. 132.

German shipping does not only import the raw materials necessary for its basic industries but at the same time concentrates its efforts on the international market for freight revenues. But I perhaps hold a view not commonly taken when classifying German shipping (or shipping policy) as belonging to Type III. All mercantile countries which have freight revenue as the purpose of their shipping policies do not necessarily belong to the third type of shipping economy. To whatever type a country may belong, freight revenues whether large or small hold an important place. But, in these countries whose shipping is the main means of the people's livelihood as well as of the commerce promotion, freight revenue is of secondary importance.

In this case, it is necessary to make a distinction technically between import and export. When a country (Type II) uses its own ships in transporting its goods for foreign trade, freight saving can be thought of in relation to foreign imports. In general, those who pay the freight are the buyers of the importing countries. But when a country (Type II) uses its own fleet in exporting its manufactured goods, the freight is paid by the buyers of the foreign importing country. In this case freight revenues can be thought in exporting goods. But, in actual matters, it is not as simple as this. For further details, Institut für Konjunkturforschung: S. S. 134ff.; Johnson & Huebner: Principle of Ocean Transportation, New York, 1919, p. 489.

On this point, in Type II country where raw materials of basic industry is lacking, shipping becomes important industry in promoting foreign commerce in order to bring in raw materials and mineral ores. And, to overcome the deficient balance due to the excess of imports over exports of commodities trade, freight revenue is considered very important. Japan is a good example of such a type.

"Especially in a country like Japan which continuously has the excess of imports over exports, the international revenue income from shipping items is of the utmost importance. The importance of a nation's status and the rapid rise of a national wealth can be thought of together with international income. If we let our imagination run freely, we see that this shipping income will grow tremendously, and so we need not fear the unfavorable conditions of trade from which we suffer at the present time.¹⁾" This point may have been over-emphasised, but with regard to the importance of shipping freight revenue item in international balance, the opinions of other authors in Japan will be found to be about the same.

In contrast to this, America which belongs to the first type has two opposing views regarding shipping freight revenue. Freight revenues which have no objection in countries belonging to Type II and Type III, cause much hot discussions in the Type I countries. "There has been a great deal of discussion in connection with the merchant-

¹⁾ Shimomura, K. (下村健一): Modern Shipping Theory (現代海運論) 1937, pp. 240-41.

marine problem about the effect of shipping on the balance of international payments. Merchant-marine enthusiasts maintain that money spent for American shipping services is money kept at home, with consequent benefits to American labor, management, and capital. Economists declare, on the other hand, that ship services are a form of export, and that whatever we spend in this way tends to reduce the purchasing power of other nations and may, therefore, diminish exports of some other form. It may, of course, also result in increased imports."¹⁾

The former may be called a positive advocate and the latter a negative advocate. The positive argument advocated the shipping subsidies for the increase and maintenance of the merchant fleet, especially from the end of the 19th to the early part of the present century. The negative argument has held a free ship policy for the national economy in general, especially since early in the present century and up to the present time.

Positive advocates

Williams W. Bates	(Author of "American Marine, 1892." and "American Navigation, 1902.")
James Blaine	(Secretary of State in President Harrison's administration)
Charles H. Cramp	(President of Cramp Ship Building Company)
Stephen B. Elkins	(Republican senator, advocate of shipping subsidies from late 19th century to early 20th century)
Albert D. Lasker	(Chairman of U S. Shipping Board)

Negative advocates

Royal Meeker	(Author of "History of Shipping Subsidies, 1905.")
Paul H. Horn	(Author of "International Trade, 1935.")
Paul M. Zeis	(Author of "American Shipping Policy, 1938.")

Among these men, I shall take W. W. Bates as representative of the positive thinkers. He is a shipping critic who has contributed greatly to the ship subsidies movement from the end of the 19th century to the early part of this century. His two books: "American Marine" and "American Navigation," served as strong support for the Republican shipping policy of that time. He hoped earnestly that American shipping should be restored to the prosperous era prior to the Civil War.

¹⁾ U. S. Maritime Commission : pp. 8-9.

"But the freight-money paid to foreign shipping, the most of it by our own people, may, and should be speedily dispensed with by having shipping of our own, and employing our own people for building, managing and sailing it. In 1891, the total of sea-freightage (at 15 per cent ratio) was \$ 248, 481, 121. Foreign shipping was paid \$ 217, 515,163 or 87.54 per cent, while American shipping received 30,965,958, or 12.46 per cent. Had it done 75 per cent of the carrying, it would have received \$ 186,360,840, and foreign shipping been paid \$ 62,120,281, and we should have been saved the payment abroad of \$ 155,394,882 in the year. Had we done 50 per cent of carriage, the saving would have been \$ 110, 263, 254."¹⁾

Bates insisted on the ocean transport in a nation's own ship for freight saving and also looked at it as a direct method to increase credit abroad.

"It follows, if American ships, instead of foreign, had carried these products to market, our credit abroad would have been 18.88 per cent, more than it was, to wit, \$ 20, 147, 756, instead of \$ 16, 947, 976, since export freights are always paid where cargo is landed. From these facts we learn that transportation by our own hands is the sister of production, but by foreign hands, an oppressor: and that the use of our own shipping is as beneficial to the country as the cultivation of our farms."²⁾

"To realize the extent of our shipping subjection in the recent past, we may compare the freightage paid foreigners by the value of one of our cereal crops. Take the period of eleven years, 1880-1890 inclusive, select the oat crop, and we will have the following statement:-

	Average Annual Amount
Freight charges paid foreign shipping	\$ 180,679,030
Value of the oat crop	\$ 184,610,237

"..... Now, although we have been raising oats instead of carrying goods we cannot pay freighting charges with the oat crop....."³⁾

As a representative of the negative advocates, we shall take R. Meeker. In his book, *History of Shipping Subsidies* published in 1905, he showed the strongest opposition against shipping subsidies, which were strongly supported at the time. The following is his views concerning international shipping freight revenues.

"The subsidy advocates assert that the vast sums paid to foreign

1) Bates, W. W.: *American Marine*, 1892. p. 23.

2) Bates: *American Marine*, p. 268.

3) Bates: *American Marine*, pp. 19-20.

ship-owners as freight charges will be saved to the country as a result of the bounties. This they regard as their most telling "economic" argument for the subsidies.¹⁾

"Since Mr. Blaine's speech our foreign commerce has gone on increasing enormously, while our merchant marine engaged in foreign trade has continued to decrease. Yet the country has not been ruined, nor have specie payment been suspended. Even the great port of New York has borne up remarkably well under the terrific drain of gold which according to Mr. Cramp is increased to \$ 300,000,000 per annum." "And if we pay Englishmen, Germans, and Norwegians ever so many millions of dollars for doing services which would cost us a great deal more if we performed them ourselves, there is nothing but economic gain to us in the transaction." "Let us suppose that we pay foreign ship owners \$ 150,000,000 per annum for carrying freights. If we decide to dispense with the services of foreign ships, and do our own freighting with American built ships, owned by American capital and manned by American citizens as it is proposed, it means that we must divert capital from other lines of industry to the amount of at least a billion and a half dollars and invest it in shipping. If this capital invested in other enterprises would earn \$ 180,000,000 per annum, plainly the change to the shipping industry would result in a direct and immediate annual loss of \$ 300,000,000 in the total social product."

"The mystery and romance of the sea seems to have a most confusing effect upon the rational faculties of some statesmen. They associate the money earned by a steamship with the fabulous wealth of the Spanish mine. There is nothing extraordinarily attractive or remunerative about the sea-freighting business. It would be very uneconomical to lure or drive capital and labour into this business if they are earning as much or more in other lines. If Mr. Blaine had been advised to cut down his household expenses by discharging his janitor and employing his own energies in the lucrative industries of carrying coal, cleaning the furnace, sweeping the cellar, etc., thus saving the relatively large sum of \$ 400 in gold every year, and at the same time building up a flourishing home industry, he would have been amazed—perhaps displeased. Yet such a suggestion is scarcely more ridiculous than the eloquent appeal for a merchant marine made by Mr. Blaine in 1881."²⁾

American shipping which I have called the first type has shown

¹⁾ Meeker, R.: p. 203.

²⁾ Meeker, R.: pp. 205-10.

many problems and discussions with regard to freight revenue or freight savings as the purpose of shipping policy. The above quotation have made it clear. It should be noted that the protectionism or positive opinion has been expressed occasionally in industrial circles or by politicians while the liberalism or negative stand has been taken continuously by scholars against shipping subsidies movement. In the above, the positivist advocates thought that all freights paid to foreign ships were completely lost. On the contrary, the liberalists or scholars have a more flexible way of thinking when they try to think of the effect of the freight payment to foreign shipping from the viewpoint of the entire organization of national economy. The readers will no doubt agree that in the discussions between Meeker and Bates, Bates has very little to his credit. According to E. S. Gregg, Bates is the kind of person who will use the article "the" in making the index for his book, so lacking in common sense.¹⁾ Be that as it may, we would like to see the rapid development of the ship subsidy movement under the Republican administration which lasted for more than 20 years from 1890 to 1910, while Mr. Bates was a Commissioner of Navigation and his book was used and admired as the source of all information. After all, many political difficulties have been found in American shipping history, since the Civil War.

The above example may be no doubt rather old. Recent conditions will be examined now. After the First World War, when America began to grow rapidly as a maritime nation almost surpassing England, Mr. Lasker, chairman of the U. S. Shipping Board, said as follows:

"The freights alone involved in our expanding commerce amount into the hundreds of millions; and it means much to our national wealth whether we retain these freights collectively to ourselves, or whether we pay them abroad. If John Smith, the individual, spends \$ 50 abroad and receives therefore wares, he is none the poorer; but if the national John Smith spends \$ 50,000,000 abroad that he could retain at home the nation is a great portion of that \$ 50,000,000 poorer."²⁾

That such an opinion was not accepted can be seen in the shipping and shipping policy later in America. Whether shipping may become an important industry or not depends to a great extent on the natural resources of a country, the industrial progress and the organization of

¹⁾ Gregg, E. S.: A Case against Discriminating Duties, *Journal of Political Economy*, Vol. 30. 1922. p. 404.

²⁾ Helander, S.: *Die internationale Schifffahrtskrise und ihre weltwirtschaftliche Bedeutung*, Jena, 1928. S. 381.

the national economy. In a country like the U.S. where natural resources are abundant and where industry is highly mechanised, manufactured goods are generally cheap and they may be exported by using foreign vessels. Of no use is it to keep a shipping enterprise with heavy losses. This is clear even without bringing up the theory of comparative manufacturing costs. We wish to state our view, against that of Bates quoted above, that in the case of the United States, shipping in its own ships is the oppressor of production and foreign vessels are the cooperator of production.

"The argument that we should have a large merchant marine in order to secure the income from passenger fares and ocean freights for American-owned companies is probably the weakest argument of all. It is of the same protectionist nature as the argument that we should produce everything at home and buy nothing abroad. This argument carried to its logical conclusion would make each state in the Union, each local community, and each individual family entirely self-sufficient, so that there would be little or no trade at all in existence. It would return us to the medieval days when every manor produced all its needed products or did without them, or to the pioneer days when the family was a self-sufficient unit producing its own food and homespun, as well as other necessities; and we should have again the resulting miserable standards of living."¹⁾

"In regard to the question of freights, if foreign vessels can carry our goods satisfactorily and more cheaply than American ships, on a purely competitive basis, they are entitled to the business. Furthermore, considering the large creditor position of the United States, if we wish ever to receive payment of interest and principal on any of our foreign debts, we must allow foreigners to pay us in the only mediums at their disposal, which are goods and services. Ocean transportation services are probably as good a medium as any in which to receive part payment. Such reasoning is based upon sound economic principles and should not be considered as in any way pacifistic or as advocating outright free trade."²⁾

(to be continued)

^{1) 2)} Horn: pp.271-72.